

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08

EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 ICA-11

OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00

OMB-01 SS-15 SOE-02 DODE-00 DOE-15 H-01 INT-05

L-03 NSC-05 PM-05 OES-09 STR-07 ACDA-12 NRC-05

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-----120600 201735Z /46

R 201655Z JUL 78

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 7990

INFO ALL EC CAPITALS

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USEEC

PARIS ALSO FOR USOECD

E.O. 11652: N/A

TAGS: ENRG, EEC

SUBJECT: EC COMMISSION DEMARCHE REGARDING EXPORT OF
PETROLEUM PRODUCTS TO THE U.S.

REF: (A) 77 BRUSSELS 8209, (B) 77 STATE 54703

1. SUMMARY. DIRECTOR GENERAL FOR ENERGY LEONARD WILLIAMS HAS INFORMED AMBASSADOR THAT HE HAS SENT AN INFORMAL LETTER TO DOE ASSISTANT SECRETARY BERGOLD TO EXPRESS EC CONCERN REGARDING THE DECREASING LEVEL OF EC EXPORTS OF PETROLEUM PRODUCTS TO THE U.S. AT A TIME WHEN THE EUROPEAN PETROLEUM REFINERY INDUSTRY HAS CONSIDERABLE OVERCAPACITY AND IS FACING SERIOUS FINANCIAL DIFFICULTIES. WILLIAMS NOTES IN THIS LETTER THAT A PROSPECTIVE CONTINUED U.S. DEFICIT IN DOMESTICALLY REFINED FUEL OIL AND GAS OIL
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COMPLEMENTS AN EC SURPLUS PRODUCTIVE CAPACITY IN THESE PRODUCTS AND SUGGESTS THAT INCREASED MOVEMENT OF FUEL OIL AND GAS OIL FROM THE EC TO THE U.S. WOULD OBVIATE THE NEED FOR COSTLY INVESTMENTS TO EXPAND U.S. CAPACITY FOR HEAVIER FRACTIONS AND TO INCREASE CRACKING CAPACITY IN EUROPE TO REDUCE RESIDUAL YIELDS. HE FURTHER SUGGESTS THAT, IF DOE BELIEVES EXPLORATION OF SUCH POSSIBILITIES

WOULD BE USEFUL, HE WOULD SEE HOW DISCUSSIONS ON THIS AND OTHER OIL SECTOR SUBJECTS COULD BE CARRIED OUT. ACTION REQUESTED: MISSION WOULD APPRECIATE REACTIONS FROM THE DEPARTMENTS OF ENERGY AND STATE TO WILLIAMS' INFORMAL PROPOSALS. END SUMMARY.

2. THE PRINCIPAL POINTS IN WILLIAMS' LETTER OF JUNE 29 TO BERGOLD POUCHED TO THE DEPARTMENT - EUR/RPE STOCKER AND EB/FSE MARTIN-ARE AS FOLLOWS:

(A) THE EUROPEAN REFINING INDUSTRY FACES SERIOUS DIFFICULTIES WHICH MAY PERSIST THROUGH THE 1980'S BECAUSE OF SURPLUS DISTILLATION CAPACITY (OVER THREE MILLION BARRELS PER DAY (MMBPD) IN THE EC ALONE). CONSEQUENTLY, AND BECAUSE OF LOW SPOT OCEAN FREIGHT RATES, DEPRESSED SELLING PRICES HAVE PROVIDED INSUFFICIENT RETURNS TO MEET THE INDUSTRY'S OPERATING AND INVESTMENT NEEDS.

(B) THE EC IS CONCERNED THAT, IN THE FACE OF THESE DIFFICULTIES, FROM 1972 TO 1976 EC EXPORTS OF PETROLEUM PRODUCTS TO THE U.S. FELL BY NEARLY 50 FROM 141,000 BPD TO 73,000 BPD, ALTHOUGH U.S. IMPORTS OF PRODUCTS DECLINED BY ONLY 20.

(C) THERE HAS BEEN SERIOUS DETERIORATION IN THE PRICE COMPETITIVENESS OF EC EXPORTS ON THE U.S. MARKET, PARTLY BECAUSE OF A DIFFERENTIAL BETWEEN CRUDE AND PRODUCT FREIGHT LIMITED OFFICIAL USE

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COSTS, BUT ALSO BECAUSE: SINCE 1973 CRUDE OIL COSTS HAVE BEEN HIGHER IN EUROPE THAN IN THE U.S.; U.S. LICENSING FEES ARE HIGHER ON PRODUCTS THAN ON CRUDE OIL IMPORTS; AND SUCH FEES ARE NOT REQUIRED FOR IMPORTS OF CRUDE OIL FOR NEWLY BUILT U.S. REFINERIES AND FOR IMPORTS OF PRODUCTS FROM CERTAIN WESTERN HEMISPHERE EXPORTERS.

(D) DESPITE CONSIDERABLE UNCERTAINTY, U.S. IMPORTS IN THE EARLY 1980'S WILL PROBABLY BE 1-3 MMBPD ABOVE THE 1977 LEVEL. PRESENT POLICIES AND REGULATIONS GIVE A STRONG INCENTIVE FOR THE U.S. OIL INDUSTRY TO COVER THIS INCREASED DEMAND BY EXPANDING U.S. DOMESTIC REFINING CAPACITY RATHER THAN BY IMPORTING FINISHED AND SEMI-FINISHED PETROLEUM PRODUCTS.

(E) THERE IS A "CONSIDERABLE DEGREE OF COMPLEMENTARITY" BETWEEN THE U.S. AND EC REFINING INDUSTRIES. THE PROSPECTIVE U.S. DOMESTIC PETROLEUM PRODUCT DEFICIT IS "WELL WITHIN" THE SPARE PRODUCTIVE CAPACITY OF THE EC, PARTICULARLY IN REGARD TO FUEL OIL AND GAS OIL IN THE SHORT AND MEDIUM TERMS. MOST EC EXPORT REFINERIES ARE LOCATED IN ITALY AND HOLLAND WHERE THEY CAN PROCESS LOW SULPHUR NORTH

AFRICA AND NORTH SEA CRUDE TO MEET U.S. QUALITY REQUIREMENTS. IF EC REFINERS CANNOT INCREASE EXPORTS OF FUEL OIL, THEY WILL HAVE TO INVEST IN CRACKING PLANTS TO REDUCE RESIDUAL YIELDS WHILE U.S. PRODUCTIVE CAPACITY FOR HEAVIER FRACTIONS IS BEING EXPANDED.

(F) INCREASED MOVEMENT OF FUEL OIL AND GAS OIL FROM THE EC TO THE U.S., WHICH WOULD GREATLY REDUCE INVESTMENT NEEDS IN BOTH REGIONS, CAN ONLY TAKE PLACE IF EC FINISHED

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L-03 NSC-05 PM-05 OES-09 STR-07 ACDA-12 NRC-05

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PRODUCTS CAN COMPETE ON THE U.S. MARKET ON EVEN TERMS WITH IMPORTED CRUDE OIL. IF PARITY WERE ACHIEVED, INTERNATIONAL COMPANIES WITH CAPACITY ON BOTH SIDES OF THE ATLANTIC COULD BETTER INTEGRATE THEIR OPERATIONS AND U.S. NATIONAL COMPANIES COULD CONSIDER PROCESSING DEALS IN EUROPE TO COVER PRODUCT SHORTFALLS.

(G) IF U.S. DOMESTIC CRUDE OIL PRICES RISE TO INTERNATIONAL LEVELS, ONE OF THE OBSTACLES TO PRODUCT IMPORTS WILL BE REMOVED.

IN THE MEANTIME, EXTENSION OF THE ENTITLEMENTS PROGRAM TO PETROLEUM PRODUCTS COULD PERHAPS BE CONSIDERED.

(H) IN CONCLUSION, WILLIAMS SAYS THAT IF MR. BERGOLD BELIEVES THERE WOULD BE MERIT IN DISCUSSING THESE AND OTHER OIL SECTOR SUBJECTS, HE WOULD BE PLEASED TO SEE HOW SUCH DISCUSSIONS COULD BE INITIATED AND ORGANIZED.

3. COMMENT: THE MISSION RECALLS THAT WILLIAMS FIRST

RAISED THE POSSIBILITY OF EXPANDING EC EXPORTS OF PETROLE-
UM PRODUCTS TO THE U.S. IN THE COURSE OF US/EC ENERGY
CONSULTATIONS IN WASHINGTON IN MARCH 1977 (REF (A)). UN-
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TIL NOW, THERE HAD BEEN NO FOLLOW-THROUGH.

4. ACTION REQUESTED: WE WOULD APPRECIATE IT IF EITHER
ASST SECRETARY BERGOLD'S REPLY WERE FORWARDED TO USEC FOR
DELIVERY OR IF USEC WRE INFORMED IF THE REPLY IS MADE
TO THE EC DELEGATION IN WASHINGTON TO WHICH WILLIAMS IS
ALSO SENDING A COPY OF HIS LETTER. HINTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEMARCHE, EXPORTS, PETROLEUM PRODUCTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRUSSE14228
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780298-0704
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780740/aaaabheq.tel
Line Count: 186
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 466a3570-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 BRUSSELS 8209, 77 STATE 54703
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1947729
Secure: OPEN
Status: NATIVE
Subject: EC COMMISSION DEMARCHE REGARDING EXPORT OF PETROLEUM PRODUCTS TO THE U.S.
TAGS: ENRG, EEC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/466a3570-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014